Introducing HECM Program Changes

- Public Law No. 113-29, the Reverse Mortgage Stabilization Act, was enacted August 9, 2013.
- Authorized the Secretary of Housing and Urban Development (HUD) to establish, by notice or mortgagee letter, any additional or alternative requirements determined necessary to improve the fiscal safety and soundness of the reverse mortgage program.
- FHA published three Mortgagee Letters introducing HECM policy and product changes
- Federal Register Notice FR-5735-N-01, Changes to the Home Equity Conversion Mortgage Program Requirements: Financial Assessments provided opportunity for public comment.

Introducing HECM Program Changes

Mortgagee Letter 2013-27, *Changes to the Home Equity Conversion Mortgage Program Requirements (effective with case numbers issued on or after September 30, 2013).*

- Established limitations on the amount of the disbursement at closing and during the First 12-Month Period
- Established a new payment option: Single Disbursement Lump Sum payment
- Eliminated Standard and Saver initial Mortgage Insurance Premium (MIP) Options and related Principal Limit Factor (PLF) Structure
- Return to a Fixed and ARM Product with one set of PLFs
- Introduced new Principal Limit Factor Tables
- Introduced a new Initial MIP structure based on the draw percentage of Principal Limit at origination

Introducing HECM Program Changes

- **Mortgagee Letter 2013-27**, *Changes to the Home Equity Conversion Mortgage Program Requirements (effective with case numbers issued on or after January 13, 2013)*.
  - Established a requirement that a financial assessment be conducted of each HECM mortgagor *(effective with case numbers issued on or after January 13, 2013)*.
  - Established new requirements for paying property charges based on the results of the financial assessment *(effective with case numbers issued on or after January 13, 2013).*
- **Mortgagee Letter 2013-28**, *Home Equity Conversion Mortgage Financial Assessment and Property Charge Guide.*
  - *Introduced a detailed HECM Financial Assessment and Property Charge Guide*

Introducing HECM Program Changes

Mortgagee Letter 2013-33 – *Clarifications, Technical Correction and Purchase Transactions*

- Clarified Mandatory Obligations definition
- Clarified what items must be included in the First 12-Month Disbursement Limit and initial MIP calculations
- Corrected calculation error for Principal Limit increase
- Corrected Life Expectancy (LE) Set Aside calculation annual adjustment
- Provided criteria for allowing case numbers on HECM Purchase transactions where Certificate of Completion had not been issued.

Upcoming HECM Program Changes

- Implementation date for financial assessment and property charge payment options will be extended.
- New mortgagee letter with changes to Financial Assessment and Property Charge Guide based on public comment.
- Counseling Training Support
- Evaluate Training Tools – FIT tool, Economic Check Up, Benefits Check UP – maximize use in counseling and origination
- Industry calls/webinars – use of Financial Assessment Guide

Financial Assessment

- Involves separate, but complimentary, analyses of:
  - the mortgagor's credit history (how "willing" is the mortgage to meet financial obligations); and
  - the mortgagor's cash flow (how "able" is the mortgagor to meet financial obligations).
- The DE Underwriter, on behalf of the mortgagee, must make a judgment whether, all factors considered, :
  - the mortgagor is eligible and qualified for the HECM ; and
  - whether property charge requirements must be imposed.

Financial Assessment

ASSESSMENT OF HECM MORTGAGOR	
PRIOR TO FINANCIAL ASSESSMENT	**AFTER FINANCIAL ASSESSMENT**
Determine eligibility	Determine eligibility
	Determine qualifications
	Determine property charge payment requirements

Financial Assessment

- Mortgagees must review credit history and calculate income and expenses to determine cash flow for every mortgagor.
- Before determining if a mortgagor is acceptable, or if requirements regarding property charges must be imposed, mortgagee must consider:
  - Extenuating circumstances
  - Compensating factors
  - Role of the HECM proceeds in resolving financial difficulties

HECM Financial Assessment Compared to Forward Underwriting

Related to forward loan underwriting, but with key differences.

- No minimum credit score.
- No automated underwriting. All HECMs must be underwritten manually.
- No qualifying ratios
- Mortgagor is taking on new debt, but is not adding to monthly obligations.
- New debt incurred (HECM) may be the answer to the mortgagor’s financial problems rather than adding to them.

Credit History

- Mortgagor must resolve:
  - Delinquent Federal debt
  - Unpaid property liens stemming from State or court-ordered judgments
- If CAIVRS reveals prior FHA foreclosure
  - If claim paid on FHA-insured mortgage within last 3 years, loan cannot be approved without a specific waiver from HUD
  - Waiver cannot be requested until all other processing is complete

Credit History

Mortgagor must have a satisfactory payment history for mortgages, installment debt and revolving debt.

- No property tax arrearages in the 24 months prior to the date of loan application (extenuating circumstances may provide explanation).
- Homeowner’s insurance in place for at least 90 days prior to the date of loan application (developing policy for mortgagors who didn’t have a mortgage).
- Satisfactory history on revolving credit, installment debt, and mortgages (see forward policy in Guide adopted for HECM).

Extenuating Circumstances

- Factors that explain circumstances related to derogatory credit.
- Extenuating circumstances must be considered before making any final determination on credit standing.
- May include (but is not limited to)
  - Loss of income due to death of spouse
  - Loss of family economic support
  - Unemployment, illness
- Any extenuating circumstances cited must be documented in case binder. (See Section 4.1 of Guide, Appendix 1 for sample format).

Non-Borrowing Spouses

- Credit of non-borrowing spouses must be considered in community property states only.
- Community property states: AZ, CA, ID, LA, NV, NM, TX, WA, WI.
- Credit review is limited to determining if non-borrowing spouse has any Federal, state or court-ordered judgments that could jeopardize the property securing the HECM.
- Any judgments must be paid off at or prior to closing unless
  - excluded by state law; or
  - under an approved payment plan

Income

- Income from all sources must be calculated for all mortgagors.
- Income from non-borrowing spouses or other household members not obligated on the mortgage cannot be used.
- All income used must be verified and documented.
- A mortgagor is <u>not</u> required to report income or assets from all sources, but you can only consider income that is verified and documented.

Income

- Interest/dividend income from assets may be counted as monthly income, or
  Income from dissipated assets can be calculated,
  but not both.
- No requirement that the asset actually be dissipated.
- HECM proceeds will not be included in residual income calculation but will be used to support how HECM addresses issues the borrower may currently have and/or as a compensating factor.

Expenses

- Monthly payments for mortgages, installment and revolving debt ought to be readily available from credit report.
- Property charges may require more effort.
- Mortgagees may use the VA formula to calculate maintenance and utility expenses for all mortgagors.
- Mortgagees are not required to estimate future taxes as say, from dissipating assets. Current taxes must be used in calculating expenses.

Residual Income

- Modeled on VA's residual income calculation, with some changes.
- Not a "pass/fail" test.
- Amounts on residual income table are not minimum requirements.
- Income, expenses and calculation of residual income must be documented.

Residual Income and Family Size

- All members of the mortgagor's household must be included in family size, even if they are not obligated for the mortgage. This includes non-borrowing spouses.
- If mortgagor claims that he or she lives alone, that fact must be documented.
- Guide requires tax returns in this regard. FHA will provide alternative documentation standards for mortgagors who do not file tax returns.

Compensating Factors

- Where residual income falls below amounts on residual income table, mortgagees must consider any compensating factors.
- These could include
  - Low initial draws on HECM
  - Good credit and property charge payment history
  - Other income not counted as effective income
- Any compensating factors cited must be documented.

How Will the HECM Help

- Debt obligations are being eliminated
- Monthly income will be increased through term or tenure payments
- Significant imputed income from remaining principal balance after draws during First 12-Month Period.

Property Charge Payment Options

Property charge payment options include:

- Shortfall Cash Set Aside
- Life Expectancy Set Aside
- Mortgagor authorization for payment from HECM monthly payment or Line of Credit as they come due.
- Mortgagor pays property charges from own funds.
- If mortgagee does not require one of these options, mortgagor may voluntarily select any of these options